

ORIGINAL

DOCKET FILE COPY OF RECEIVED

JUL - 8 1997

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

In the Matter of )  
Request for Comment on Broadband )  
PCS C and F Block Installment )  
Payment Issues )

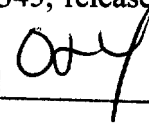
WT Docket No. 97-82

To: Chief, Wireless Telecommunications Bureau

**REPLY COMMENTS OF NORTHCOAST COMMUNICATIONS, LLC**

Northcoast Communications, LLC ("Northcoast")<sup>1</sup> hereby replies to the numerous comments filed in response to FCC Public Notice DA 97-679, and the Commission's request for additional comment in WT Docket No. 97-82. In FCC Public Notice DA 97-679, the Commission requested comment on various proposals that it has received to restructure C and F block debt, and the FCC's broadband PCS Entrepreneur Block installment payment requirements. Northcoast filed Comments on June 23, 1997 and participated in the discussion at the FCC's June 30 Public Forum on this issue. In both venues, Northcoast expressed its strong opposition to any proposal that would relax entrepreneur block installment payment requirements and/or restructure or reduce entrepreneur block debt. Nothing stated by the numerous commenters or the June 30 Public Forum participants changes the fact that, if

<sup>1</sup> Northcoast was the high bidder on 49 D, E and F ("DEF") block licenses. The Commission has now granted all 49 of Northcoast's license applications. See *Public Notice* DA 97-883, released April 28, 1997; *Memorandum Opinion and Order*, DA 97-1345, released June 27, 1997.

No. of Copies rec'd  
List A B C D E 

implemented, the proposals will: 1) significantly undermine the integrity of the FCC's auction process; 2) result in certain litigation, and therefore delay the provision of additional personal communications service to the public; and 3) most importantly, disproportionately benefit C block licensees at the expense of the F block, thereby increasing the C blocks' existing competitive advantage. Consequently, Northcoast adamantly opposes all entrepreneur block installment payment restructuring proposals.

**I. IMPLEMENTATION OF THE COMMENTERS' PROPOSALS WILL PLACE F BLOCK LICENSEES AT A COMPETITIVE DISADVANTAGE**

After reviewing the comments filed in this proceeding and listening to the discussion at the Commission's Public Forum, there are several, relevant points on which all interested parties seem to agree. First, over the past year, Wall Street has determined that many C block licensees overbid for their licenses. This perception has tainted C block licensees in general, so that many cannot obtain financing. Second, while the restructuring proposals would affect *all* broadband PCS entrepreneur block licensees, the primary advocates of the restructuring proposals are the C block licensees impacted by the negative financial climate. And third, one reason that the financial community views many C block licensees in a negative light is that F block licensees bid *significantly* less for their broadband PCS licenses.

The central theme that arises after considering all of these undisputed elements is that despite the fact that F block licensees by and large *do not need* restructuring of their installment payment obligations, F block payment obligations very likely may be restructured anyway, only because many C block licensees purportedly are at risk of defaulting on their installment payment obligations. Given this scenario, Northcoast wants to go on record that it

does not want or need restructured payment obligations<sup>2</sup>, that if the Commission changes the installment payment rules at this late point, it will seriously undermine the competitive position of Northcoast and other F block licensees while improving the competitive position of their C block competitors, and that such a massive rule change would be *patently unfair* to all of the C block auction participants that withdrew from the C block auction when the bidding went out of control.<sup>3</sup>

Northcoast is particularly concerned that in considering the restructuring proposals, the Commission seems to presume that its action will have a competitively neutral impact among C and F block licensees. Further, the Commission does not appear to be giving sufficient weight to the negative, rather than the presumptively positive, impact that restructuring will

---

<sup>2</sup> Northcoast notes that Bear Stearns & Co., Inc. and General Wireless, Inc. ("GWI") propose reducing C block debt from an average price per pop of \$23, net present value to approximately \$10, net present value. See Comments of Bear Stearns & Co, Inc. and Comments of GWI. Since the average F block price per pop *already* is approximately \$2.54, with a net present value of substantially less, it is unclear what benefit, if any, debt reduction would be to F block licensees, or whether debt reduction will even be available to F block licensees.

<sup>3</sup> For example, an affiliate of Northcoast's, North Coast Mobile Communications, Inc. ("NCMC"), was a C block auction participant that made an upfront payment of \$11.7 million, giving it a maximum eligibility level of 780,000,000. NCMC withdrew from the C block auction in early March, 1996, when it could no longer justify its continued participation, even under its most aggressive business plan. In addition to NCMC, several other "serious" C block bidders with high eligibility, such as GO! Communications, TeleCorp, Inc., U.S. Airwaves Holdings Inc. and AirLink, L.L.C. withdrew from the C block auction citing similar concerns.

Northcoast disputes the relevance of statements made by a few commenters observing that certain of these withdrawing C block bidders had placed bids in a handful of markets that ended up being within 10% of the final average C block price. See, e.g., Comments of GWI, p. 14-15. Such anecdotal evidence is virtually meaningless outside the context of total bids placed by the companies, and does not alter the fact that the companies withdrew from the auction due to bidding levels that exceeded any reasonable expectations.

have on many F block licensees. Several examples illustrate this point. First, as Northcoast pointed out in its Comments in this proceeding, many of the most vocal proponents of installment payment restructuring are the largest C block licensees, that carry the largest debt, and who consequently have the most to gain by the restructuring. For instance, under the GWI pre-payment proposal, the savings realized by the top three largest C block bidders from the proposed debt write-off varies from over \$3.5 billion to over \$786 million.<sup>4</sup> Since no F block licensee bid over \$182,000,000,<sup>5</sup> F block licensees will not come close to realizing the same type of significant, business-altering savings benefit from the debt write-off that C block licensees will.

This dramatic savings difference cannot be understated. To illustrate, NextWave's C block net bid amount is approximately \$4.7 million. If the Commission were to adopt NextWave's first proposal to allow C block licensees to accrue interest for eight years and extend the repayment term to twenty years,<sup>6</sup> it would realize an *annual* savings on interest

---

<sup>4</sup> See Comments of GWI, Table II. These savings are exclusive of deferred interest payments, as proposed by NextWave Telecom, Inc., which obviously would also represent a significant savings to C block licensees. Northcoast's notes, however, that as opposed to NextWave's extended payment proposal, GWI's pre-payment plan provides for immediate payments to the government, and would not result in the significant interest deferral contemplated under the NextWave proposal.

<sup>5</sup> Specifically, OPCSE-Galloway Consortium's ("OPCSE") net total high bid in the DEF block auction was \$181,387,337. See *FCC Public Notice, DA 97-81*, Attachment B, released January 15, 1997. In addition, it is important to note that a sizeable portion of OPCSE's total net bid should be allocated to D and E block licenses that it won. As non-Entrepreneur Block licenses, which would not benefit from the proposed debt reduction and relaxed payment obligations, OPCSE's debt savings is even lower.

<sup>6</sup> Comments Of NextWave Telecom, Inc., pp. 4-9.

payments during the first eight years of approximately \$308.5 million.<sup>7</sup> The net effect of this substantial savings would be to allow NextWave to immediately pursue and complete multi-city system build-out, as well as implementing extensive system marketing efforts. Conversely, given the reasonable amounts bid in the F block auction, F block companies would not receive a comparable level of debt reduction, and therefore would not experience the same savings benefit. For example, under NextWave's plan, Northcoast, a major F block licensee, would save approximately \$6 million in annual interest payments. Under Northcoast's business plan, a \$6 million savings, while attractive, will not enable it to purchase a single PCS switch, much less build-out entire markets.

Further, if the Commission mandates the proposed drastic debt reductions and repayment modifications, the financing sources presently available to many F block licensees, such as vendor financing, bank financing and the high yield market, likely will disappear since C block financing opportunities will have become more attractive. While such an effect obviously would be favorable to the C block, it would place F block licensees in the same boat that C block licensees presently find themselves in. Therefore, if the Commission adopts the proposed relaxed payment rules, not only would it jeopardize the continued availability of current F block funding sources and place F block licensees at a severe competitive disadvantage, but it would also have the effect of penalizing the only group of entrepreneur block licensees that bid responsibly.

---

<sup>7</sup> To arrive at this figure, Northcoast simply multiplied NextWave's existing \$4.76 billion debt by its annual interest rate of 6.5%.

Finally, the disparity in benefits received between C and F block licensees from the proposed installment payment rule revisions will only exacerbate the fact that C block licensees already enjoy much more favorable government financing terms, i.e., five year interest-only payments for the C block as opposed to two-year interest-only for the F block.<sup>8</sup> In sum, if the Commission adopts the restructuring proposals, it will wipe out any competitive advantage that F block licensees legitimately gained by bidding responsibly and sticking to sound business plans, despite less favorable F block installment payment financing rules.

## **II. NORTHCOAST OPPOSES RELAXATION OF CROSS-DEFAULT PROVISIONS**

During the financing panel of the FCC's June 30 Public Forum, several of the "Wall Street" panelists urged the FCC to clarify that C block licensees may selectively default on licenses. Presumably, the panelists would not object to the imposition of the default penalty as contemplated by Section 24.704(a)(2) of the rules. Northcoast opposes any waiver of the Commission's cross-default policy. Given the massive debt write-off and restructuring proposals currently being contemplated, a C block licensee that is still in dire financial straits should not also be allowed essentially to "pick and choose" the specific markets that it wants to keep, and those that it might give back to the Commission.

## **III. CONCLUSION**

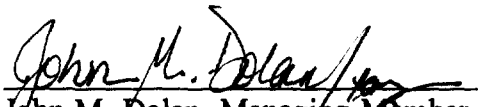
For the reasons stated above, Northcoast respectfully urges to Commission not to

---

<sup>8</sup> See 47 C.F.R. § 24.711(b)(3); 47 C.F.R. § 24.716(b)(3).

adopt any modifications to the C and F block installment payment requirements, nor restructure any of the existing debt owed by C and F block licensees.

Respectfully submitted,  
**NORTHCOAST COMMUNICATIONS, LLC**

By:   
John M. Dolan, Managing Member of  
Northcoast PCS, LLC  
Control Group of Northcoast  
Communications, LLC

Northcoast Communications, LLC  
6800 Jericho Turnpike, Suite 120 West  
Syosset, New York 11791  
(516) 393-5806

July 8, 1997